

Witness CCS - 2R

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of	:	Docket No. 02-057-02
Questar Gas Company for	:	PRE-FILED REBUTTAL TESTIMONY
an Increase in	:	OF HUGH LARKIN, JR.
Rates and Charges	:	FOR THE COMMITTEE OF
	:	CONSUMER SERVICES

October 4, 2002

CCS-2R Hugh Larkin, Jr.

02-057-02

Page 2

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. I am Hugh Larkin, Jr., a Certified Public Accountant licensed in the State of Michigan. I am the senior partner in the firm Larkin & Associates, PLLC, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. ARE YOU THE SAME HUGH LARKIN, JR. WHO PREVIOUSLY SUBMITTED TESTIMONY IN THIS CASE?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of this rebuttal testimony is to address issues raised in the direct testimony of Division of Public Utility (DPU) witnesses Ronald Burrup and Thomas Peel, filed on August 30, 2002. Specifically, I address Mr. Burrup's testimony regarding the appropriate test period and Mr. Peel's testimony addressing customer usage.

TEST PERIOD**Q. ARE YOU STILL RECOMMENDING THAT AN AVERAGE HISTORICAL TEST PERIOD BE USED FOR DETERMINING REVENUE REQUIREMENT IN THIS CASE?**

A. Yes. In my direct testimony, I support the current Commission policy of using an average historical test year. That testimony supplemented that of Daniel E. Gimble, who presented testimony in this docket regarding test year in the test year hearing held by the Commission.

Q. WHAT TEST PERIOD IS THE DPU SUPPORTING IN THIS CASE?

A. According to DPU witness Ronald Burrup, the Division: "...believes that a partial future test period, January to December 2002, with end of period rate base, including changes that have occurred to January 1, 2003 is appropriate in this docket." In other words, the DPU is recommending that Questar Gas Company's (QGC or the Company) position be adopted. This results in two substantial changes to the methodology traditionally and historically adopted by the Commission. First, it utilizes a projected future test period. Second, it utilizes a year-end rate base and customer annualizations methodology instead of the traditional average test year approach.

Q. WHAT REASON DOES MR. BURRUP GIVE FOR ADOPTING SUCH A SUBSTANTIAL CHANGE FROM THE METHODOLOGY PREVIOUSLY APPROVED BY THE COMMISSION?

A. At page 3 of his testimony, Mr. Burrup indicates that the DPU is persuaded by the significant differences in rate of return between the historical test period and the 2002 test period. He indicates that the test period proposed by QGC, after DPU recommended adjustments, is more representative of conditions that will exist in the

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02-057-02

Page 3

rate effective period. I disagree. The projected test period relies in part on budgeted and projected amounts that are not known and measurable. For example, subsequent to its initial filing, the Company has already substantially reduced its projected 2002 plant additions. Another factor that causes the large difference in the rate of return between the historical test period and the 2002 test period is the Company's and DPU's adjustments for customer usage. I addressed the customer usage issue extensively in my direct testimony and will address it further in this rebuttal testimony.

Q. DOES MR. BURRUP QUOTE ANY PAST COMMISSION DECISIONS AS SUPPORT FOR SWITCHING TO A PROJECTED YEAR-END TEST PERIOD IN THIS CASE?

A. Yes. Included in his testimony are quotes from an August 10, 1992 decision in a case involving US West Communications, Docket No. 92-049-04. The quotes included by Mr. Burrup are provided below:

"Events may occur and conditions may ensue which preclude a utility, operating under traditional regulation based on a historical test period, from the opportunity to earn a reasonable rate of return and avoid financial harm. ...the Utah Legislature passed three pieces of legislation to protect utilities. ...the third statute, the one referred to above, gives the Commission discretion to consider anticipated changes in the utility's financial condition and to adopt a future or partial future test period rather than the normal historical test period." (US West Communications, Docket 92-049-05, page 4)

Mr. Burrup then indicates that the Commission provided the following criteria for a future test period in the decision, at page 5:

"By this Order the Commission restates and emphasizes its preference for an historical test period and hopes to make clear the criterion for substitution of a future or partial future test period or out-of-period adjustments. A party which elects to project a future or partial future test period or to propose out-of-period adjustments has the burden of showing on the record that there exists general economic conditions, such as inflation or technological change, or a major event, which would subject the utility or rate-payers to substantial economic harm."

Q. DOES MR. BURRUP FEEL THAT THE COMPANY HAS CLEARLY SHOWN THAT IT MEETS THE ABOVE IDENTIFIED CRITERIA IN THIS CASE?

A. Apparently so. In his direct testimony, Mr. Burrup indicates that the historical test period is not reflective of the rate effective period due to four "major events" that

€CS-2R Hugh Larkin, Jr.

02-057-02

Page 4

occur during 2002. He identifies the four "major events" as: (1) decline in customer usage; (2) increase in number of customers; (3) Section 29 tax credit termination; and (4) labor annualizations.

Q. DO YOU AGREE THAT THE ITEMS LISTED BY MR. BURRUP WOULD QUALIFY AS A MAJOR EVENT THAT WOULD MEET THE CRITERIA IDENTIFIED IN THE COMMISSION'S 1992 DECISION?

A. No, I do not. For the most part, these are normal events that are part of utility operations as opposed to "major events." I do not feel that the Commission meant for normal recurring changes in utility operations to trigger the "major event" criteria identified in its 1992 decision. For example, customer growth is a normal annual occurrence. Additionally, employee wage increases typically occur each and every year. Clearly customer growth and employee wage increases (two of Mr. Burrup's four factors) are not "major events." Additionally, once the Company's shortfall in contributions in aid of construction is addressed, as discussed by CCS Witness McFadden in his direct testimony, customer growth should not have as large an impact on revenue requirement as an appropriate level of contribution in aid of construction will be collected from new customers. Additionally, Committee witness Donna DeRonne pointed out in her direct testimony that the Company has not been collecting the level of contributions specifically allowed for, and required, in its existing tariffs. This was also discussed by QGC witness Barry McKay.

I addressed the remaining two items specifically identified by Mr. Burrup as "major events" in my direct testimony, consisting of customer usage and Section 29 tax credits. I disagreed with both of these Company sponsored adjustments in my direct testimony, and continue to do so. I also address usage per customer further in this rebuttal testimony. In my opinion, neither of these two issues should be considered a "major event" for purposes of supporting a future test period.

In my opinion, neither Mr. Burrup, nor QGC, have provided sufficient justification or identified significant "major events" to justify moving not only to a projected test period, but also to a year-end test period. The Commission's criteria discussed by Mr. Burrup from the 1992 US West Communications decision have not been met.

©CS-2R Hugh Larkin, Jr.

02-057-02

Page 5

CUSTOMER USAGE**Q. WOULD YOU PLEASE DESCRIBE THE CUSTOMER USAGE ADJUSTMENT SPONSORED BY DPU WITNESS THOMAS PEEL?**

A. The Company's filing included a forecasted decline in GS-1 customer usage during 2002 to 116.16 Dths, representing its then projected year-end 2002 customer usage level. This resulted in a \$4,037,904 reduction to the Company's projected 2002 year-end customer revenue annualizations. I address this forecast extensively in my direct testimony. DPU witness Peel recommends a GS-1 customer usage level of 117.00 Dths. Mr. Peel describes the calculation of his recommended 117.00 Dths as follows:

The Division's estimate, therefore, begins with the average actual GS-1 customer usage, as of June 30, 2002, which is about 118.00 Dths. This level of usage is based on normal degree days for the 30 years 1970-1999. The Division then adjusted the 118.00 Dths to update for the effect of the change in normal degree days for the 30 years 1972 - 2001 (117.25), and the effect of the lower usage levels of GSE customers (formerly Utah Gas) to arrive at the Division's mid-year adjusted GS-1 usage of 117.00 Dths.

The DPU's adjustment results in a \$1,036,000 reduction to the Company's adjustment, effectively incorporating a \$3,002,000 (\$4,038,000 - \$1,036,000) reduction to 2002 year-end annualized GS-1 customer revenues.

Q. DOES MR. PEEL ACKNOWLEDGE THAT THE SIGNIFICANT INCREASE IN GAS RATES, WHICH HAVE SUBSEQUENTLY DECLINED, WOULD HAVE IMPACTED THE COMPANY'S CUSTOMER USAGE PROJECTIONS?

A. Yes. He indicates that: "Based on the recent significant decrease in rates, it is possible that many customers may take advantage of the lower rates during the 2002/2003 winter season by increasing their usage." He continues his discussion, indicating that his use of a 2002 mid-year adjusted GS-1 customer usage represents a test year forecast that anticipates a higher usage than the Company's forecasted 116.16 Dths level. However, the period Mr. Peel uses still includes the full impact of the spike in gas prices and the recession. Consequently, I continue to recommend that gas consumption be based on the weather normalized historical 2001 test year.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

©CS-2R Hugh Larkin, Jr.

02-057-02

Page 6

A. Yes, it does.